

ORIGINAL

OPEN MEETING AGENDA ITEM

OPEN MEETING

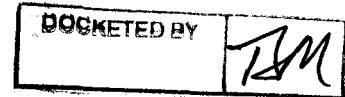
MEMORANDUM
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Arizona Corporation Commission

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JAN 17 2013



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AZ CORP COMMISSION
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TO: THE COMMISSION

FROM: Utilities Division

DATE: January 17, 2013

RE: ARIZONA PUBLIC SERVICE COMPANY – APPROVAL OF UPDATED GREEN POWER RATE SCHEDULES GPS-1, GPS-2 AND GPS-3 (DOCKET NO. E-01345A-10-0394) AND APPROVAL OF ITS 2013 RENEWABLE ENERGY STANDARD IMPLEMENTATION FOR RESET OF RENEWABLE ENERGY ADJUSTOR (DOCKET NO. E-01345A-12-0290) - STAFF'S REPLY TO APS' COMMENTS ON STAFF'S RECOMMENDED OPINION AND ORDER

On November 15, 2012, Arizona Public Service Company ("APS") filed Comments to Staff's Recommended Opinion and Order concerning the APS 2013 REST Plan. This filing is Staff's response to APS' comments.

1. APS requested clarification about Staff's recommendation on APS's "Track and Record" proposal.

A number of stakeholders have filed comments on APS's proposed "Track and Record" proposal. In these comments, stakeholders have raised a variety of concerns about APS's "Track and Record" proposal. The comments indicate that controversies exist over the "Track and Record" proposal; therefore, the issues related to this proposal and its potential alternatives appear to be better suited for a hearing.

Although Staff believes that APS's "Track and Record" proposal has merit, Staff understands how some parties may believe that "Track and Record," as proposed by APS, may be inconsistent with the existing provisions of the REST rules. Because of the number and tenor of the comments, Staff recommends that APS's "Track and Record" proposal not be adopted at this time, thereby maintaining the status quo.

However, Staff believes that APS's proposal merits serious consideration, and the issue should ultimately be decided by the Commission. At this time, Staff recommends that the Commission act upon all aspects of APS's plan except the "Track and Record" proposal. Staff recommends that the "Track and Record" proposal (as well as potential alternatives thereto) should be subject to a hearing. The Commission should direct the Hearing Division to schedule a procedural conference, entertain requests for intervention, hold a hearing, and prepare a Recommended Opinion and Order for Commission consideration on the "Track and Record" proposal and potential alternatives.

2. APS requested clarification of Staff's recommendation about the 2012 third-party Schools and Government Program. APS had requested a budget of \$31.5 million for the program while Staff had recommended a reduced budget of \$29.5 million, coupled with a reduction of the incentive cap down to \$0.09 per kWh for 15-year PBIs and \$0.085 per kWh for 20-year contracts.

In the APS comments, APS argues that the reduction of the budget to \$29.5 million would create a de facto bid cap at or below \$0.06/kWh in order to fund 18.75 MW, as originally proposed in the 2012 REST Plan.

Staff agrees with APS that the reduced budget may keep APS from creating the full 18.75 MW desired for the program, but Staff believes that by lowering both the budget and the caps, a more competitive environment will lead to much lower costs per kWh in the Schools and Government program. In the long run, this will benefit rate payers by limiting increases in REST surcharges to pay for Schools and Government projects.

Staff believes that the Commission could resolve this issue in two ways. First, the Commission could add back \$2 million to the Schools and Government Program budget, reconfirming the \$31.5 million budget as requested by APS. Second, the Commission could accept Staff's \$29.5 million budget and lower incentive caps, and tell APS that the 18.75 MW of new projects is a goal and that there will not be a penalty if APS runs out of funds before reaching the 18.75 MW goal in 2013. The portion of the goal missed in 2013 would be added to the Schools and Government budget in the 2014 APS REST Plan. Staff recommends that the Commission adopt the second option.

3. APS asked for clarification of Staff's proposal to reallocate uncommitted 2012 RES funds. This reallocation of funds was the subject of a separate APS application that was decided by the Commission in Decision No. 73576 on November 21, 2012 (Docket No. E-01345A-11-0264). Therefore, the issue is moot and no further action is required.
4. APS requests clarification of Staff's recommendations regarding APS' Green Power rate schedule. Staff confirms its recommendation to increase APS' current Green Power rate from \$0.004 to \$0.0102 per kWh through 2013 as proposed in Staff's Recommended Opinion and Order ("ROO") that was filed in Docket No. E-01345A-10-0394 on May 9, 2012. Staff recommends that this ROO be voted on separately at the same Open Meeting that addresses the APS 2013 REST Plan.
5. In its comments to Staff's ROO for the 2013 REST Plan, APS proposed holding a multi-session technical conference to discuss the costs of Distributed Energy.

Staff recognizes that the Staff's proposed "paradigm shift" raises a number of issues that are very complex and difficult to consider. Therefore, Staff agrees with APS that some form of technical conference would be the best mechanism to fully consider, and discuss the multiple issues inherent in such an undertaking. Staff recommends Commission approval of the technical conference series.

Staff further recommends that the Commission require APS to include the following issues in its technical conference series:

- A comprehensive evaluation of both the cost and benefits of Distributed Renewable Energy and Net Metering. This shall include the benefits to both renewable and non-renewable customers. Benefits considered would be such things as, but not limited to, reductions in system losses, reductions in utility energy and capacity generation requirements, particularly during peak periods, avoidance or deferral of distribution and transmission investments, fuel-price uncertainty and localized grid support including enhanced reliability benefits.
 - An analysis of the balance of costs and benefits of Distributed Renewable Energy and Net Metering for each customer class.
 - An evaluation of the benefits of avoided environmental costs created by new or proposed federal or state environmental rules and regulations.
6. In response to a Staff Data Request, APS provided Staff with information about REST funds from previous years that have not yet been expended. As of January 15, 2013, APS had funds from cancelled residential projects and other unallocated residential funds totaling approximately \$1,771,000. These funds could be re-allocated to meet a portion of the 2013 residential Distributed Energy budget.

Similarly, as of January 15, 2013, APS had approximately \$2,380,000 in non-residential Distributed Energy funding that had not yet been allocated.

Staff believes that the \$4.1 million of cancelled project funds and unallocated REST funds will cover about 42 percent of the additional funding that would be needed to fund Staff's Option 3 proposal. The remaining \$5.5 million would come from the increase in the cap for the largest customers, starting at \$1,000 per month in February of 2013 and increasing by \$200 every two months until reaching \$2,200 per month in February of 2014. These changes would allow the caps for residential and small commercial customers to return to the caps approved for the 2012 REST plan of \$3.84 per month and \$142.44 per month, respectively.

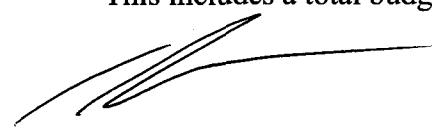
Therefore, Staff proposes to modify its recommendation for the REST surcharge and caps as follows:

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Staff recommends that the Commission approve Staff-proposed Option 3 reflecting a REST surcharge of \$0.009588 per kWh, with monthly caps of \$3.84 for residential customers, \$142.44 for non-residential customers, \$1000.00 per month starting in February of 2013 for non-residential customers with demands of 3 MW or greater, increasing by \$200 every two months until February of 2014. This includes a total budget approval of \$108.4 million.



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Utilities Division

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